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OUTSOURCING AND CORPORATE RESULTS

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Abstract — Few corporate practises have awakened so much recent interest as outsourcing. Seen as the carrying out of a process or activity by an external company or organisation, when this process was traditionally undertaken within the heart of the company, it is not known how far it can be used to determine the limits of the company and, the final aim of this article, the repercussion of its use from the perspective of corporate results analysis. In this way, it appears indispensable to study the internal capabilities of the organisations, in particular their flexibility and the knowledge management that they carry out, understanding that these variables act as moderators when it comes to determining the true effects of outsourcing on the determination of results.

Index Terms —Outsourcing, Knowledge Management, Flexibility, Profits.

1 INTRODUCTION

We can define Outsourcing as the carrying out of a process or activity by an external company or organisation, when this process was traditionally undertaken within the heart of the company.

Within the study of this concept it is of prime importance to understand why outsourcing has become a useful method of adjusting the limits of a company in response to external economic pressures. From within this perspective we can see it as a business strategy worthy of consideration.

On the other hand, and just as important, is the analysis of the true effects that this type of business practice has on the company's results. It is here that we will study the particular characteristics of the organisation in question regarding outsourcing, aware that these variables act as moderators of the process.

Therefore, it is indispensable to determine what these moderating variables are and to design a map of interactions between them and the results that will form a model and justify the aim of this article.

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2 OUTSOURCING

2.1 Background

To compensate for the loss of internal technological capabilities, companies are gradually gaining confidence in external partners who can effectively replace the internal capabilities of generating knowledge and innovation (Dyer and Nobeoka [1]; Quinn, [2]).

Some of the main arguments in favour of outsourcing have tried to design contingent models that attempt to clarify the circumstances under which outsourcing is a beneficial solution. One of these models is the Transaction Cost Theory (Willamson, [3]). This predicts that outsourcing will occur under conditions of low asset specificity, as well as under uncertainty and frequency of exchange.

2.2 Theoretical approximations

From the viewpoint of Transaction Cost Theory, obtaining information on different price alternatives for the factors means costs. To carry out its exchanges, if the "company" institution did not exist, each economic agent would have to carry out a series of contracts with other agents to obtain the factors that are necessary for the production of a good, logically with a cost associated with these contracts.

This is due to the fact that in exchanges where there is high asset specificity there is a rise in market failure as a result of

opportunism, and this forces companies to internalise these exchanges (Walter and Weber, [4]). In the same way, if an asset is often required then the disadvantages of the cost of exchange with the market causes the phenomenon of internalisation.
Although technological uncertainty was considered a predisposition to vertical integration for companies, recently it has in some way ceased to be considered a significant antecedent of outsourcing.
Other authors (Migrom and Roberts, [5]) point to the information differential between the client and the supplier as the most certain explanation for outsourcing. This difference in information can lead to vertical integration between the two.
Another explanation for outsourcing arises from the analysis of the company's resources and skills. From the viewpoint of Knowledge Management and Resources and Capabilities Management, analysed in earlier chapters, there is the suggestion that companies will outsource those activities that are not their specialism or that are not related to their main activity, given that these are the areas where the companies are less able to carry out the required activity. These perspectives transfer from this mode of analysis to the interior of the companies in the face of the market failures that we raised earlier as causes of outsourcing.
According to the real options theory (Leiblein and Miller, [6]), outsourcing of activities will depend on whether these activities can become sources of future growth for the company, and for the scholars of the institutional environment (Toulan, [7]), the rise in the freedom of the economy in general and of the operation of the markets in particular, have brought about a rise in the phenomenon of outsourcing.
Studying the arguments followed by defenders of relational income (Dyer and Singh, [8]) and of confidence (Zaheer et al., [9]), the establishment in the long term of relationships based on confidence and idiosyncrasy, can also act as incentives for outsourcing.
These are, in an abbreviated form, some of the existing arguments that offer an explanation for the subject of outsourcing. However, the decision to outsource is based fundamentally on possession and access to resources, for this reason we will focus particularly on dealing with this subject through examining the company's capabilities and knowledge, that is, through a detailed look at the aforementioned Theory of Resources and Capabilities.
Finally we note that there is a certain amount of confusion between the term outsourcing and other similar terms such as offshoring, and offshore outsourcing, but the definitions of these terms are different. Offshoring is the locating of some function of the organisation in a foreign country, not the surrender of control or administration attached to one of the functions carried out by the company. When the process of outsourcing occurs with a company located in a foreign country, then the term offshore outsourcing may be applied.

2.3 Outsourcing and associated terminology

At this point we will explain the different terminology associated with the phenomenon of outsourcing and examine the following concepts:

- Insourcing: applying outsourcing disciplines to internal suppliers, in this way making them compete with the external suppliers.
- Out-tasking: refers to every task that has been fully specified by the organisation but that is carried out externally in some way.
- Partnering: means that the client does not have control over how the task is carried out, that is, they leave it to the partner's discretion. When a genuine alliance exists (Gupta and Gupta, [10]; Willcocks et al. [11]) , both sides can be capable of manoeuvring and adapting when faced with changing business conditions and in turn sharing the cost savings or any rise in profits that is produced.
- Smart sourcing: consists (Kakabadse and Kakabadse, [12]) of studying outsourcing from within a strategic context.
- Business process outsourcing (BPO): determines the outsourcing of a fully specified business process, as well as the mechanisms that direct the process.
- Backsourcing: entails reintegration into the company's operations of the work that was previously outsourced.

- Transformational outsourcing: the concrete case of IT outsourcing has different characteristics from other outsourcing because of the increased flexibility that it brings. This increased flexibility, as a last resort, should bring competitive advantages, a basis for organisations to obtain better results.

3 OUTSOURCING AND CORPORATE LIMITS

After the 20th Century, the reasons why companies adopt their corresponding structures started to be studied. The conclusion was that the existing gap between cost of access to the markets and the problem of diseconomies of scale originated in the excessive size of certain companies.
Until the emergence of Transaction Cost Theory, the study of the company within the framework of economic theory did not explain the reason why some large firms had a high level of vertical integration covering various phases of the production process, while others specialised and gained the necessary elements from their suppliers. Neither did it explain why some firms specialised more than others in certain parts of products.
At the beginning of 1980 (Peters and Waterman, [13]) recommendations were put forward to companies that were aiming to focus on their main strategy. But it was during the following decade (Prahalad y Hamel, [14]) that a corporate strategy was consolidated, designed for a restructuring of companies with the objective of boosting development of the main activity, this meant a fundamental change of strategy.

3.1 Company limits

It is undeniable that there is a relationship between outsourcing and the limits of the company, understanding that these limits are defined by the existence of four associated dimensions.

TABLE 1

CORPORATE SIZE LIMITS

	Relationship with the company limits
Conglomeration	Occurs when a company acquires or merges with another company when they are not in different phases of the same supply chain, nor are they competitors in the same activity within the same chain
Horizontal Integration	Refers to fusion between two or more companies that operate in the same phase of the value chain, therefore, among competitors
Vertical Integration	Appears when the company goes beyond the limits of its primary supply chain, as much downwards as upwards
Integration of support activities	Refers to how the company does or does not expand its limits through outsourcing of defined activities of its secondary supply chain

Source: Own elaboration

3.2 Main activities of the supply chain

One of the main reasons that a company decides to outsource a certain number of activities from its primary supply chain could be the cost of keeping them up-to-date, bearing in mind that for some of these the cost would be extremely high. This is particularly significant for activities where the technology varies constantly, which explains why the pioneers of outsourcing were IT outsourcing companies.

We can define IT outsourcing as subcontracting, in part or in full, the information system (IS) of an organisation to a service company that will direct its operation (Altinkemer et al., [15]), or, as the management of the IT infrastructure through the mechanisms of other companies (Loh y Venkatraman, [16]). In short, it is a relationship inherent in the provision of IT services on behalf of a supplier to their client.

IT outsourcing is approached by different authors from the perspective of the success it has achieved, and conditions to be take into account are the number of functions that it covers (Lacity and Willcocks, [17]), its duration, and the type of relationship that has been maintained (Nam, [18]).

3.3 Support activities

Outsourcing does not encompass primary activities of the supply chain exclusively. In fact, the majority of companies (Cox and Lonsdale, [19]) only turn to it for those support activities that are seen as services offered by the company and systems that they rely on.

There has been a radical change in the way that companies study the general role of these support activities. Although in principle they mainly limit themselves to IT support provision, recently these types of services have been expanding.

Nowadays, they include important services such as logistics, very important, as well as legal services, maintenance, assembly, etc.

4 OUTSOURCING DIMENSIONS

Before determining the activities that can be an object of outsourcing, we must consider three key factors (Quinn and Hilmer, [20]). The first will be the activity's potential to be considered as a source of competitive advantage.

The second factor would surround the analysis of the level of strategic vulnerability involved in outsourcing this activity. The third decisive factor may include determining the necessary control measures to reduce our exposure to the risks of contracting with our suppliers, taking into consideration our corporate objectives.

The first two factors analysed will allow the configuration of a matrix with these two dimensions, which should help us identify three types of ideal strategy as shown below:

There are authors (Venkatesan, [21]) who set out similar principles for outsourcing decision making, for example, to focus on activities that we excel in and to outsource those where an external company has a competitive advantage over us.

TABLE 2

MATRIX OF OUTSOURCING DIMENSIONS

High	Necessary strategic control		
Potential as competitive advantage		Moderate necessary control	
Low			Reduced necessary control
	High	*Level of strategic vunerability*	**Low**

Source: Quinn and Hilmer, 1994

Other authors (McIvor, [22]) proposed following defined stages before taking a decision on outsourcing:

1. Definition of the company's main activities
2. Evaluation of the relevant activities in our value chain
3. Develop a total cost analysis for those main activities
4. Analysis the existing relationships between our activities

Supported by this plan, the company should be able to decide what activities to outsource and what others to develop internally.

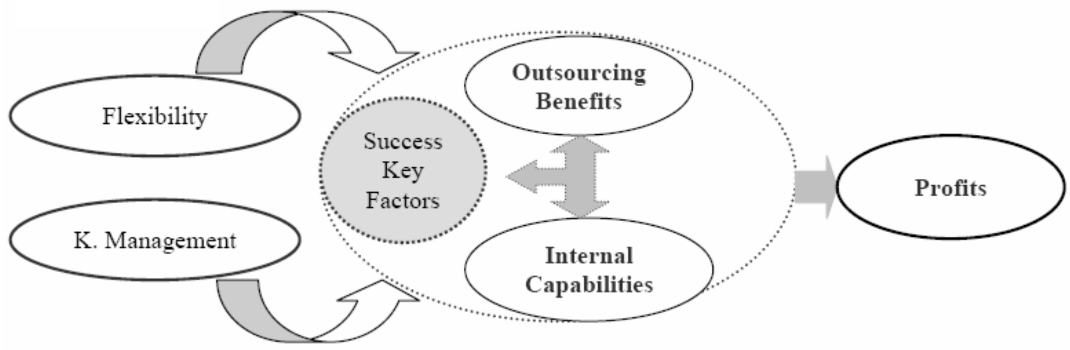
But this decision plan is not unique. We can also consider (Cánez et al. [23]) the company environment for each one of its activities, employing for this measure of return similar to those traditionally used in operation management, such as cost, quality or flexibility.

5 PROPOSED MODEL

After carrying out a theoretical approximation of this article's aim of study, the next step is to determine what is the present relationship between outsourcing and corporate results.

For this, it is important to establish the dimensions that make up the constructs that are being analysed and the relationship between them.

Fig. 1. Model



In the specific case that we are dealing with, this relationship will be subordinate to our organisation's capabilities and to the key factors of success in our collaborative relationships, all moderated by the role played by the flexibility and knowledge management variables within the organisation (Fig.1).

5.1 Knowledge management

Nowadays, knowledge and knowledge management have become a preferential topic of research within the corporate environment. Their importance is determined by involvement in the individual performance of the organisations and, in macroeconomic terms, in societal welfare and development.

It is with the appearance of the Theory of Resources and Capabilities that the company came to be considered as a collection of technologies, abilities, knowledge, etc. that in time will be generated and will grow; that is, as a unique combination of a wide variety of resources and capabilities (Grant, [24]).

The study of these resources that belong to the company and that, from that moment, are considered sources of competitive advantage, brings about theoretical approximations among which is the aforementioned Knowledge management, the focus of this section.

This approaches moves away from the concept of knowledge as an intangible resource and its management as a capability, perceiving Organizational Learning as a method of ensuring correct assimilation of key knowledge that is indispensable for value added and for building solid competitive advantages.

In this way, knowledge becomes the main factor for analysis and more and more the way is opened for the affirmation that the main source of a company's competitive advantages reside fundamentally in its knowledge, more specifically, in what it knows, in how it uses what it knows, and in its ability to learn new things.

With regard to the dimensions that we are employing in the proposed model, we consider the following as determinates:

1. Ability to access this knowledge and quality
2. The organisation's learning capability, and
3. Characteristics of the company's knowledge.

5.2 Flexibility

The concept of flexibility has been extensively treated in a multitude of disciplines and different theoretical perspectives, but with regard to strategic flexibility (Hitt, Keats and DeMarie, [25]) we will define it as a company's proactive capability or the capability for immediate response when faced with a changing competitive environment that gives it the ability to maintain or increase its competitive advantages.

This flexibility is considered to be a critical organisational competency that allows the company to maintain its competitive advantages and achieve a superior performance (Sánchez, [26]). Strategic flexibility is not only important from a proactive perspective but can be considered a critical ability when the company operates in dynamic and changing environments (Evans, [27]).

The strategic impact of this type of flexibility is reflected in its capacity to contribute to the generation of competitive advantages at different levels of the organisation and denote its ability to adapt itself to a change in the environment (Greenley y Oktemgil, [28]).

The dimensions that are used to study flexibility and that affect the model must include determining the temporary aim of the study. In this way we will group them in:

1. Operational flexibility (short term)
2. Design flexibility (long term)

5.3 Outsourcing

With reference to Outsourcing, it is fundamental to distinguish a series of factors to be considered in the study of this operation.

In the first place we will delimit the benefits of outsourcing, examining it from such disparate perspectives as will allow us to focus on our activity, looking at the increased flexibility that it brings and then analysing the strategic strengthening that it provides, as well as other strengths.

TABLE 3

OUTSOURCING FACTORS FOR ANALYSIS

	Relationship with the company limits
Benefits reported by Outsourcing	It should cover perspectives so disparate as will allow us to focus on our activity, looking at the rises in flexibility that it brings and then analysing the strategic strengthening that it brings as well as other strengths.
Impact of Outsourcing decisions on our internal capacities.	From the potential improvement in supplied services to aspects such as flexibility when facing changes in market demand or rises in the number of our services.
Training of the service provider and level of complement.	Always understood as the training and the level of complement between our main capabilities and our respective organisational cultures.
Characteristics of success in our collaborations	Range from partner identification, to the negotiation process, or to the understanding of the strategic implications of these alliances for the company.
Main activities aim of Outsourcing	Bearing in mind the main subdivision, carried out earlier, of supply chain main activities or support activities.

Source: Own elaboration

Later we must consider the impact that these decisions on outsourcing of activities have on our internal capabilities, from the potential improvement, to aspects such as flexibility when facing changes in market demand or rises in the number of our services.

Following this, we should not forget the training of the outsourcing service provider and the level of complement between our main capabilities and our respective organisational cultures.

It is then, when we analyse the characteristics of success in our collaborative relationships that it becomes indispensable. These characteristics associated with success range from identification of the partner, to the negotiation process, or to the understanding of the strategic implications that these alliances mean for the company.

Concluding the study of this area, we emphasise the establishment of the activities or tasks that are most often outsourced, and we again remember the aforementioned main subdivision for main activities of the supply chain, or for support activities.

5.4 Corporate results

In this section we will consider the importance given to the measures that traditionally are most representative of the level of results that the company achieves, that is:

1. Profitability of our company measured by profits over assets.
2. Profitability of our company measured by profit over own resources.
3. Profitability of our company measured by the percentage of profit over turnover.
4. The level of return on investments made.
5. The company's market quota of its main services and markets.
6. The sales growth in its main services and markets.
7. The number of complaints from our clients.
8. The number of services begun but left unfinished at our client's request.
9. The length of time between our clients' request for service and the providing of the service.
10. The general level of client satisfaction with the company.
11. The level of loyalty among our clients.

In short, this attempts to consider the level of results obtained through a Likert scale that allows us to evaluate the most significant items.

6 CONCLUSION

The study of the repercussions that, for the company's results, has its fulfilment in the outsourcing of activities that are not the main activities or Outsourcing, is far from being considered as a simple reduction in costs in these activities.

The increase in this business practice merits a detailed study of the particular connotations that surround this phenomenon.

In this way, a model is proposed that will analyse the relationship between the practise of Outsourcing and the corporate benefits, studied from the link with its internal capabilities and the key factors of success in its collaborative relationships.

This study model shall be subject to the proposal of a questionnaire with items that most faithfully represent the dimensions it contains, not forgetting the role played by its flexibility and the knowledge management that it carries out.

This questionnaire has already been produced (www.ugr.es/~oscarfb/Cuestionario.html) and we await the analysis of the results that are being obtained.

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